

of only 20 percent of the total fair market value of such property (i. e., only one-half of C's 40-percent share), then only one-half of C's special basis adjustment of \$800 for partnership inventory items and \$200 for unrealized receivables would be taken into account. In that case, the basis of the inventory items in C's hands would be \$650 (\$250, the common partnership basis for inventory items distributed to him, plus \$400, one-half of C's special basis adjustment for inventory items). The basis of the unrealized receivables in C's hands would be \$100 (zero plus \$100, one-half of C's special basis adjustment for unrealized receivables).

[T.D. 6500, 25 FR 11814, Nov. 26, 1960; 25 FR 14021, Dec. 31, 1960, as amended by T.D. 8847, 64 FR 69908, Dec. 15, 1999]

§ 1.732-3 Corresponding adjustment to basis of assets of a distributed corporation controlled by a corporate partner.

The determination of whether a corporate partner has control of a distributed corporation for purposes of section 732(f) shall be made by applying the special aggregate stock ownership rules of § 1.1502-34.

[T.D. 8949, 66 FR 32902, June 19, 2001]

§ 1.733-1 Basis of distributee partner's interest.

In the case of a distribution by a partnership to a partner other than in liquidation of a partner's entire interest, the adjusted basis to such partner of his interest in the partnership shall be reduced (but not below zero) by the amount of any money distributed to such partner and by the amount of the basis to him of distributed property other than money as determined under section 732 and §§ 1.732-1 and 1.732-2.

§ 1.734-1 Optional adjustment to basis of undistributed partnership property.

(a) *General rule.* A partnership shall not adjust the basis of partnership property as the result of a distribution of property to a partner, unless the election provided in section 754 (relating to optional adjustment to basis of partnership property) is in effect.

(b) *Method of adjustment.*—(1) *Increase in basis.* Where an election under section 754 is in effect and a distribution of partnership property is made, whether or not in liquidation of the partner's entire interest in the partner-

ship, the adjusted basis of the remaining partnership assets shall be increased by:

(i) The amount of any gain recognized under section 731(a)(1) to the distributee partner, or

(ii) The excess of the adjusted basis to the partnership immediately before the distribution of any property distributed (including adjustments under section 743(b) or section 732(d) when applied) over the basis under section 732 (including such special basis adjustments) of such property to the distributee partner.

The provisions of this subparagraph may be illustrated by the following examples:

Example 1. Partner A has a basis of \$10,000 for his one-third interest in partnership ABC. The partnership has no liabilities and has assets consisting of cash of \$11,000 and property with a partnership basis of \$19,000 and a value of \$22,000. A receives \$11,000 in cash in liquidation of his entire interest in the partnership. He has a gain of \$1,000 under section 731(a)(1). If the election under section 754 is in effect, the partnership basis for the property becomes \$20,000 (\$19,000 plus \$1,000).

Example 2. Partner D has a basis of \$10,000 for his one-third interest in partnership DEF. The partnership balance sheet before the distribution shows the following:

ASSETS		
	Adjusted basis	Value
Cash	\$4,000	\$4,000
Property X	11,000	11,000
Property Y	15,000	18,000
Total	30,000	33,000

LIABILITIES AND CAPITAL		
	Adjusted basis	Value
Liabilities	\$0	\$0
Capital:		
D	10,000	11,000
E	10,000	11,000
F	10,000	11,000
Total	30,000	33,000

In liquidation of his entire interest in the partnership, D received property X with a partnership basis of \$11,000. D's basis for property X is \$10,000 under section 732(b). Where the election under section 754 is in effect, the excess of \$1,000 (the partnership basis before the distribution less D's basis for property X after distribution) is added to the basis of property Y. The basis of property